

**CHESAPEAKE BAY TRUST
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
JUNE 30, 2019 AND 2018**

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Independent Auditor's Report

To the Board of Trustees
Chesapeake Bay Trust

Report on the Financial Statements

We have audited the accompanying financial statements of Chesapeake Bay Trust (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chesapeake Bay Trust as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2019, on our consideration of Chesapeake Bay Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Chesapeake Bay Trust's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Chesapeake Bay Trust's internal control over financial reporting and compliance.

Gross, Mendelsohn & Associates, P. A.

Baltimore, Maryland
October 31, 2019

CHESAPEAKE BAY TRUST
Statements of Financial Position
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,345,098	\$ 3,939,176
Federal, state and local grants and contracts receivable	1,769,620	3,738,976
Contributions receivable	899,142	871,954
Interest receivable	20,508	21,482
Other receivables	15,331	6,608
Investments	9,451,720	8,860,060
Prepaid expenses	39,409	32,559
Total Current Assets	<u>15,540,828</u>	<u>17,470,815</u>
Non-Current Assets		
Property and equipment, net of accumulated depreciation	3,192,639	2,195,713
Other assets		
Construction escrow	-0-	751,870
Total Assets	<u><u>\$ 18,733,467</u></u>	<u><u>\$ 20,418,398</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 622,143	\$ 510,410
Salaries and benefits payable	160,668	166,032
Deferred revenue	1,772,478	4,331,308
Income taxes payable	1,259	7,037
Current maturities of long-term debt	66,203	62,988
Total Current Liabilities	<u>2,622,751</u>	<u>5,077,775</u>
Non-Current Liabilities		
Tenant security deposits	4,800	4,800
Deferred revenue	2,267,737	1,350,941
Mortgage payable, net of current portion	1,844,515	1,911,186
Total Non-Current Liabilities	<u>4,117,052</u>	<u>3,266,927</u>
Total Liabilities	<u>6,739,803</u>	<u>8,344,702</u>
Commitments and Contingencies (Notes 7, 13, 14, 15 and 16)		
Net Assets		
Without donor restrictions		
Undesignated	4,840,458	4,403,613
Board designated reserve	5,025,000	5,000,000
Designated approved contracts and awarded grants	1,853,683	2,249,333
Total Without Donor Restrictions	<u>11,719,141</u>	<u>11,652,946</u>
With donor restrictions	274,523	420,750
Total Net Assets	<u>11,993,664</u>	<u>12,073,696</u>
Total Liabilities and Net Assets	<u><u>\$ 18,733,467</u></u>	<u><u>\$ 20,418,398</u></u>

The accompanying notes are an integral part of these financial statements.

CHESAPEAKE BAY TRUST
Statements of Activities
Years Ended June 30, 2019 and 2018

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support and Gains			
Federal, state and local grants and contracts	\$ 6,969,660	\$ -0-	\$ 6,969,660
Contributions:			
Chesapeake Bay license plate	3,529,225	-0-	3,529,225
State tax check-off	400,851	-0-	400,851
Other	371,733	429,550	801,283
Special events, net of direct benefits to donors	90,223	-0-	90,223
Net investment return	639,147	-0-	639,147
Rental income	67,812	-0-	67,812
Loss on disposal of property	(10,711)	-0-	(10,711)
Net assets released from restrictions:			
Satisfaction of program restrictions	575,777	(575,777)	-0-
Total Revenue, Support and Gains	<u>12,633,717</u>	<u>(146,227)</u>	<u>12,487,490</u>
Expenses			
Program services:			
Restoration program	6,017,565	-0-	6,017,565
Community Stewardship program	3,281,786	-0-	3,281,786
Environmental Education program	762,148	-0-	762,148
Program management	1,096,434	-0-	1,096,434
Total Program Services	<u>11,157,933</u>	<u>-0-</u>	<u>11,157,933</u>
Supporting services:			
Management and general	649,790	-0-	649,790
Fundraising	759,799	-0-	759,799
Total Supporting Services	<u>1,409,589</u>	<u>-0-</u>	<u>1,409,589</u>
Total Expenses	<u>12,567,522</u>	<u>-0-</u>	<u>12,567,522</u>
Change in Net Assets	66,195	(146,227)	(80,032)
Net Assets at Beginning of Year	<u>11,652,946</u>	<u>420,750</u>	<u>12,073,696</u>
Net Assets at End of Year	<u>\$ 11,719,141</u>	<u>\$ 274,523</u>	<u>\$ 11,993,664</u>

CHESAPEAKE BAY TRUST
Statements of Activities (Continued)
Years Ended June 30, 2019 and 2018

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support and Gains			
Federal, state and local grants and contracts	\$ 8,327,325	\$ -0-	\$ 8,327,325
Contributions			
Chesapeake Bay license plate	3,507,771	-0-	3,507,771
State tax check-off	456,163	-0-	456,163
Other	306,063	417,970	724,033
Special events, net of direct benefit to donors	80,994	-0-	80,994
Net investment return	597,066	-0-	597,066
Rental income	18,596	-0-	18,596
Loss on disposal of property	-0-	-0-	-0-
Net assets released from restrictions:			
Satisfaction of program restrictions	430,120	(430,120)	-0-
Total Revenue, Support and Gains	13,724,098	(12,150)	13,711,948
Expenses			
Program services			
Restoration program	6,347,986	-0-	6,347,986
Community Stewardship program	3,393,797	-0-	3,393,797
Environmental Education program	647,267	-0-	647,267
Program management	1,097,360	-0-	1,097,360
Total Program Services	11,486,410	-0-	11,486,410
Supporting services			
Management and general	540,293	-0-	540,293
Fundraising	467,902	-0-	467,902
Total Supporting Services	1,008,195	-0-	1,008,195
Total Expenses	12,494,605	-0-	12,494,605
Change in Net Assets	1,229,493	(12,150)	1,217,343
Net Assets at Beginning of Year	10,423,453	432,900	10,856,353
Net Assets at End of Year	\$ 11,652,946	\$ 420,750	\$ 12,073,696

The accompanying notes are an integral part of these financial statements.

CHESAPEAKE BAY TRUST
Statements of Functional Expenses
Years Ended June 30, 2019 and 2018

	2019				
	Program Services	Management and General	Fundraising	Cost of Direct Benefits to Donors	Total
Personnel expenses					
Salaries	\$ 645,871	\$ 312,433	\$ 220,948	\$ -0-	\$ 1,179,252
Payroll taxes	60,048	29,048	20,542	-0-	109,638
Retirement	33,009	15,968	11,292	-0-	60,269
Other fringe benefits	70,015	33,869	23,952	-0-	127,836
Total personnel expenses	808,943	391,318	276,734	-0-	1,476,995
Programmatic initiatives	10,061,498	-0-	-0-	-0-	10,061,498
Revenue enhancement	-0-	-0-	333,167	58,021	391,188
Professional fees	52,324	25,311	17,900	-0-	95,535
Interest	23,218	55,879	7,943	-0-	87,040
Information technology	44,066	21,316	15,075	-0-	80,457
Organizational support	26,148	12,578	38,885	-0-	77,611
Rent	32,922	15,926	11,262	-0-	60,110
Depreciation and amortization	26,455	13,150	9,050	-0-	48,655
Strategic initiatives	-0-	26,498	-0-	-0-	26,498
Staff development	14,360	6,946	4,912	-0-	26,218
Office expense	9,953	11,948	3,404	-0-	25,305
Stewardship development	-0-	-0-	21,611	-0-	21,611
Travel expenses	11,532	5,579	3,945	-0-	21,056
Dues and memberships	10,731	5,191	3,671	-0-	19,593
Real estate taxes	4,918	11,358	1,682	-0-	17,958
Insurance	4,815	11,418	1,647	-0-	17,880
Repairs and maintenance	5,664	5,110	1,938	-0-	12,712
Meetings and conferences	6,666	3,225	2,280	-0-	12,171
Telecommunications	6,580	3,183	2,251	-0-	12,014
Office supplies	5,008	1,632	1,713	-0-	8,353
Bank and merchant fees	-0-	5,868	-0-	-0-	5,868
Utilities	2,132	1,995	729	-0-	4,856
Building management fees	-0-	4,200	-0-	-0-	4,200
Income tax expense	-0-	10,161	-0-	-0-	10,161
Total Expenses	11,157,933	649,790	759,799	58,021	12,625,543
Less: cost of direct benefits to donors netted with special events revenue in the statements of activities	-0-	-0-	-0-	(58,021)	(58,021)
Total Expenses reported in the statements of activities	\$ 11,157,933	\$ 649,790	\$ 759,799	\$ -0-	\$ 12,567,522

CHESAPEAKE BAY TRUST
Statements of Functional Expenses (Continued)
Years Ended June 30, 2019 and 2018

	2018				
	Program Services	Management and General	Fundraising	Cost of Direct Benefits to Donors	Total
Personnel expenses					
Salaries	\$ 646,980	\$ 277,277	\$ 126,035	\$ -0-	\$ 1,050,292
Payroll taxes	59,834	25,643	11,656	-0-	97,133
Pension	35,982	15,421	7,009	-0-	58,412
Other fringe benefits	72,298	30,985	14,084	-0-	117,367
Total personnel expense	815,094	349,326	158,784	-0-	1,323,204
Programmatic initiatives	10,389,050	-0-	-0-	-0-	10,389,050
Revenue enhancement	-0-	-0-	223,420	54,053	277,473
Professional fees	57,768	24,758	11,254	-0-	93,780
Interest	-0-	22,377	-0-	-0-	22,377
Information technology	40,484	17,350	7,885	-0-	65,719
Organizational support	27,941	11,617	35,967	-0-	75,525
Rent	70,534	30,229	13,739	-0-	114,502
Depreciation and amortization	5,897	2,703	1,149	-0-	9,749
Strategic initiatives	-0-	12,860	-0-	-0-	12,860
Staff development	13,644	5,848	2,658	-0-	22,150
Office expense	26,232	11,242	5,111	-0-	42,585
Stewardship development	-0-	-0-	189	-0-	189
Travel expenses	10,235	4,386	1,994	-0-	16,615
Dues and memberships	14,476	6,205	2,819	-0-	23,500
Real estate taxes	-0-	4,534	-0-	-0-	4,534
Insurance	-0-	12,557	-0-	-0-	12,557
Repairs and maintenance	-0-	1,190	-0-	-0-	1,190
Meetings and conferences	8,674	3,717	1,690	-0-	14,081
Telecommunications	3,925	1,682	765	-0-	6,372
Office supplies	2,456	1,053	478	-0-	3,987
Bank and merchant fees	-0-	8,444	-0-	-0-	8,444
Utilities	-0-	502	-0-	-0-	502
Building management fees	-0-	676	-0-	-0-	676
Income tax expense	-0-	7,037	-0-	-0-	7,037
Total Expenses	11,486,410	540,293	467,902	54,053	12,548,658
Less: cost of direct benefits to donors netted with special events revenue in the statements of activities	-0-	-0-	-0-	(54,053)	(54,053)
Total Expenses reported in the statements of activities	\$ 11,486,410	\$ 540,293	\$ 467,902	\$ -0-	\$ 12,494,605

The accompanying notes are an integral part of these financial statements.

CHESAPEAKE BAY TRUST
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Change in net assets	\$ (80,032)	\$ 1,217,343
Adjustments to reconcile change in net assets to net cash provided by (used in) by operating activities:		
Depreciation	47,950	9,573
Amortization (Noncash interest expense)	705	176
Unrealized gain on investments	(287,428)	(335,561)
Realized gain on investments	(86,338)	(64,885)
Loss on disposal	10,711	-0-
Changes in operating assets and liabilities:		
Federal, state and local grants and contracts receivable	1,969,356	(1,376,156)
Contributions receivable	(27,188)	(372,857)
Interest receivable	974	1,974
Other receivables	(8,723)	(6,608)
Prepaid expenses	(6,851)	4,685
Income taxes refundable (payable)	(5,778)	7,037
Accounts payable and accrued expenses	111,733	150,654
Salaries and benefits payable	(5,364)	41,807
Deferred revenue	(1,642,034)	3,931,526
Deferred rent	-0-	(838)
Net Cash Provided by (Used in) Operating Activities	<u>(8,307)</u>	<u>3,207,870</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(1,055,586)	(172,176)
Purchase of investments	(3,308,174)	(5,379,973)
Proceeds from sale of investments	3,090,280	5,206,092
Change in construction escrow	751,870	(751,870)
Tenant security deposit liability	-0-	4,800
Net Cash Used in Investing Activities	<u>(521,610)</u>	<u>(1,093,127)</u>
Cash Flows from Financing Activities		
Principal payments on mortgage payable	(64,161)	(15,423)
Net Increase (Decrease) in Cash and Cash Equivalents	(594,078)	2,099,320
Cash and Cash Equivalents - Beginning of Year	3,939,176	1,839,856
Cash and Cash Equivalents - End of Year	<u>\$ 3,345,098</u>	<u>\$ 3,939,176</u>
Supplemental Disclosures of Cash Flow Information:		
Interest paid	<u>\$ 87,040</u>	<u>\$ 22,377</u>
Noncash Investing and Financing Activities:		
Purchase of property	\$ -0-	\$ 2,161,597
Deferred financing costs	-0-	10,579
Less: Debt obligation	-0-	(2,000,000)
Cash acquisitions of property (included in cash flows from investing activities)	<u>\$ -0-</u>	<u>\$ 172,176</u>

The accompanying notes are an integral part of these financial statements.

CHESAPEAKE BAY TRUST
Notes to Financial Statements
June 30, 2019 and 2018

Note 1: Nature of Organization and Summary of Significant Accounting Policies

Chesapeake Bay Trust (the Trust) is a body corporate that was created July 1, 1985, by the General Assembly of the State of Maryland (the State). The Trust was organized for the general benefit of the residents of Maryland and has the statutory mission to solicit and accept gifts, grants, legacies and endowments for the advancement, restoration and protection of the water quality, land and aquatic resources of the Chesapeake Bay.

The Trust is a grant-making organization dedicated to improving the Chesapeake Bay and its rivers through three major programs:

Restoration: Encouraging outreach and community engagement activities that increase stewardship ethic of natural resources and on-the-ground restoration activities that demonstrate techniques and engaging residents in the restoration and protection of the Chesapeake Bay and its rivers.

Community Stewardship: Increasing public awareness and involvement in activities that restore and promote Maryland's natural resources.

Environmental Education: Striving to advance kindergarten through twelfth grade environmental education through experimental learning, outdoor experiences and curriculum development.

The Trust's support comes primarily from the following sources: proceeds from the State from the sale and renewal of Chesapeake Bay license plates; a Maryland state income tax check-off; and federal, state and local grants and contributions.

The accounting and reporting policies of the Trust conform to accounting principles generally accepted in the United States of America (GAAP). Following is a description of the most significant of those policies:

Basis of Accounting: The financial statements are prepared on the accrual basis of accounting in accordance with GAAP for not-for-profit organizations.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the statement of financial position date and the reported amounts of revenue, support and expenses during the reporting period. Management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes that the estimates and assumptions are reasonable under the circumstances; however, the actual results could differ from those estimates.

Cash and Cash Equivalents: The Trust classifies certain investments which are readily convertible to cash and which have a maturity date of three months or less when purchased as cash and cash equivalents. Cash and cash equivalents designated and held for investment purposes are included in investments and are not considered cash and cash equivalents for cash flow purposes.

Federal, State and Local Grants and Contracts Receivable: Federal, state and local grants and contracts receivable represents amounts due from grantors on cost reimbursement grants and contracts. All grants and contracts receivable are considered fully collectible at June 30, 2019 and 2018.

CHESAPEAKE BAY TRUST
Notes to Financial Statements
June 30, 2019 and 2018

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

Contributions Receivable: Contributions receivable are unconditional promises to give that are recorded as contributions when the promise is received. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectability of individual promises. As of June 30, 2019 and 2018, no allowance for uncollectible contributions receivable has been established as management believes that all contributions receivable will be collected within one year of the statement of financial position date.

Investments: Investments with readily determinable fair values are reported at fair value in the statements of financial position. Investments, whose fair values are not readily determinable, are recorded at cost. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Realized and unrealized gains and losses on investments for the year are reported in the statements of activities as part of investment income.

The Trust invests in a professionally managed portfolio that may contain U.S. Treasury obligations, U.S. Government agency bonds, corporate obligations, mutual funds and other investments. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

Property and Equipment: Property and equipment is stated at cost or, if donated, at fair market value at the date of the gift, less accumulated depreciation. Expenditures for maintenance and routine repairs are charged to expense as incurred; expenditures for improvements and major repairs that materially extend the useful lives of fixed assets are capitalized. It is the Trust's policy to capitalize all property acquisitions in excess of \$1,000 having useful lives of more than one year. Depreciation is computed using the straight-line method, with half-year depreciation in the year of acquisition, over the estimated useful lives of the assets as follows:

Building and improvements	40 years
Furniture and equipment	5-7 years
Leasehold improvements	15 years

Deferred Financing Costs: Deferred financing costs represent the costs incurred to obtain financing (see Note 7) which are being amortized on a straight-line basis over the term of the applicable debt obligation and charged to interest expense. GAAP requires that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. Under GAAP, debt issuance costs related to the recognized debt liability are required to be presented in the statements of financial position as a direct reduction from the carrying amount of the debt liability. The amortization of deferred financing costs was \$705 and \$176, respectively, for the years ended June 30, 2019 and 2018. As of June 30, 2019 and 2018, the accumulated amortization of deferred financing costs was \$881 and \$176, respectively.

CHESAPEAKE BAY TRUST
Notes to Financial Statements
June 30, 2019 and 2018

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

Deferred Revenue: Deferred revenue represents funds received in advance under cost-reimbursement grants and contracts. Funds received in advance are deferred to the applicable period in which the expenditures are incurred or the related services are performed, respectively.

Deferred Rent: The Trust leased office space, as described in Note 13, which required lease payment provisions with fixed annual increases. In accordance with GAAP, the total rent commitment was to be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes was recorded as deferred rent.

Net Assets: Net assets, revenue, support, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions: Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a reserve for future needs.

Net Assets With Donor Restrictions: Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Revenue Recognition: Revenue is recognized when earned. Grants and contracts revenue is recognized when the qualifying costs are incurred for cost reimbursement grants or when the service is provided for contracts. Contributions, including unconditional promises to give, are recognized when received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Contributions: Contributions received are recorded without donor restrictions or with donor restriction support depending on the existence and/or nature of any donor restrictions.

Recognition of Donor Restrictions: All donor-restricted support is reported as an increase in net assets with donor restrictions. Upon the expiration of a temporary restriction, net assets with donor restrictions are reclassified to net assets without donor restrictions in the statements of activities.

In-Kind Contributions: Contributed goods are recorded at fair value at the date of donation. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by individuals with those skills, and would otherwise be purchased by the Trust. The Trust received in-kind consulting services of \$21,268 during the year ended June 30, 2019.

The Trust benefits from personal services provided by a substantial number of unpaid volunteers. Those volunteers have donated significant amounts of time and services to the Trust. However, the services provided do not meet the criteria for recognition in the financial statements. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by individuals with those skills, and would otherwise be purchased by the Trust.

CHESAPEAKE BAY TRUST
Notes to Financial Statements
June 30, 2019 and 2018

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses: The costs of providing various programs and other support activities have been summarized on a functional basis in the statements of activities and by natural classification in the statements of functional expenses. Costs that can be identified with specific programs or support services are allocated directly. Costs that cannot be specifically identified with a particular function and that benefit more than one functional category are allocated based on estimates of time and effort.

Advertising: Advertising costs are charged to operations when incurred. The Trust had no significant direct-response advertising. Advertising expense for the years ended June 30, 2019 and 2018 totaled \$231,778 and \$136,023, respectively, and is included in revenue enhancement on the statements of functional expenses.

Income Taxes: The Trust has been recognized by the Internal Revenue Service (IRS) as a tax-exempt organization, as defined by Section 501(c)(3) of the Internal Revenue Code (IRC), that is publicly supported and, therefore, not a private foundation. Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. The Trust's unrelated business income for the years ended June 30, 2019 and 2018 is related to rental income as well as parking paid on behalf of employees, which under the new tax law effective January 1, 2018, is subject to tax. Federal and state income tax expense was \$10,161 and \$7,037 for the years ended June 30, 2019 and 2018.

The Trust's federal exempt organization tax returns are subject to examination by the IRS, generally for a period of three years after the returns are filed.

Recently Issued Accounting Pronouncements: During the year ended June 30, 2019, the Trust implemented the Financial Accounting Standards Board's (FASB) Accounting Standards Updated (ASU) No. 2016-14, *Not-For-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities* which is effective for fiscal years beginning after December 15, 2017. Accordingly, the beginning balances of the donor restricted net asset categories (temporarily and permanently restricted) have been retroactively adjusted to consolidate all donor restricted net assets into one classification, *with donor restrictions*. The ASU requires additional disclosures in the areas of liquidity and requires reclassification of investment expenses which are netted in net investment return to include internal investment expenses.

The FASB issued ASU 2016-02, *Leases* which will be effective for fiscal years beginning after December 15, 2020. The distinction between finance leases and operating leases is substantially similar to the distinction between capital leases and operating leases in the previous guidance for leases. Lessor accounting is also largely unchanged. For lessees, leases under both categories will be reported on the statements of financial position as a depreciable right-to-use asset and a related liability to make lease payments. The asset and liability should be initially measured at the present value of the lease payments, including payments to be made in optional periods only if the lessee is reasonably certain exercise and option to extend the lease or not to exercise an option to terminate the lease. The assets will be depreciated and the liability will be reduced by lease payments. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. Management has elected not to early adopt this standard and will assess the future impact of any leases on the financial statements.

CHESAPEAKE BAY TRUST
Notes to Financial Statements
June 30, 2019 and 2018

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

Reclassifications: Certain amounts previously reported in the 2018 financial statements have been reclassified to conform to financial statement presentation for the year ended June 30, 2019.

Subsequent Events: In preparing these financial statements, the Trust has evaluated events and transactions for the potential recognition or disclosure through October 31, 2019, the date the financial statements were available to be issued. During the period from July 1, 2019 through October 31, 2019, the Trust did not have any material reportable subsequent events.

Note 2: Liquidity and Availability of Funds

A summary of the financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date consisted of the following:

	2019	2018
Cash and cash equivalents	\$ 3,345,098	\$ 3,939,176
Federal, state and local grants and contracts receivable	1,769,620	3,738,976
Contributions receivable	899,142	871,954
Interest receivable	20,508	21,482
Other receivables	15,331	6,608
Investments	9,451,720	8,860,060
Less: Net assets without donor restrictions, board designated reserve	(5,025,000)	(5,000,000)
Less: Amounts not available within one year (long term deferred revenue)	(2,267,737)	(1,350,941)
Less: Net assets with donor restrictions, endowment fund	(1,000)	-0-
Financial Assets Available for General Expenditure	\$ 8,207,682	\$ 11,087,315

As part of the Trust's liquidity management plan, the Trust invests cash in excess of daily requirements in short-term investments and money market funds. The Board of Trustees (the Board) of the Trust has designated certain investments to be held for future operations of the Trust (see Note 9). Even though there is no intent of the Board to remove this designation, the Board could make these amounts available as necessary. The amounts designated for future operations and not included within the liquidity calculation as of June 30, 2019 and 2018 were \$5,025,000 and \$5,000,000, respectively.

CHESAPEAKE BAY TRUST
Notes to Financial Statements
June 30, 2019 and 2018

Note 3: Contributions Receivable

Contributions receivable consisted of the following at June 30, 2019 and 2018:

	2019	2018
Chesapeake Bay license plate revenue receivable	\$ 681,592	\$ 636,050
Tax check-off revenue receivable	213,831	235,112
Promises to give	3,719	792
	<u>\$ 899,142</u>	<u>\$ 871,954</u>

Note 4: Investments

The Trust's investment portfolio at June 30, 2019 and 2018 consisted of the following:

	2019		2018	
	Fair Value	Cost	Fair Value	Cost
Mutual funds, equities	\$ 3,629,208	\$ 2,989,964	\$ 3,767,152	\$ 3,296,683
U.S. Treasury obligations	2,221,400	2,195,465	1,223,853	1,271,537
Exchange traded funds	1,314,071	1,071,074	1,578,772	1,349,009
Corporate obligations	1,270,505	1,279,024	1,253,509	1,340,935
Municipal bonds	540,444	532,995	541,115	553,734
Money market funds	252,648	252,648	279,892	279,892
U.S. Government agency bonds	223,444	281,845	215,767	218,525
	<u>\$ 9,451,720</u>	<u>\$ 8,603,015</u>	<u>\$ 8,860,060</u>	<u>\$ 8,310,315</u>

Net investment return for the years ended June 30, 2019 and 2018 consisted of the following:

	2019	2018
Interest income	\$ 290,963	\$ 221,621
Realized gain on investments	86,338	64,885
Unrealized gain on investments	287,428	335,561
Investment expenses	(25,582)	(25,001)
	<u>\$ 639,147</u>	<u>\$ 597,066</u>

Note 5: Fair Value Measurement

GAAP establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The valuation techniques used by the Trust include the following:

Money Market Funds: Valued at original cost, which equals fair value.

Mutual Funds and Exchange Traded Funds: Mutual funds are valued at the last sales price reported in the active market in which the individual fund is traded. Exchange traded funds are valued at the time of bid.

U.S. Treasury Obligations, U.S. Government Agency Bonds, Municipal Bonds and Corporate Obligations: Valued using inputs such as benchmark yields, reported trades, broker/dealer quotes and issuer spreads.

In determining the appropriate levels, the Trust performs a detailed analysis of the assets and liabilities that are subject to fair value measurements.

CHESAPEAKE BAY TRUST
Notes to Financial Statements
June 30, 2019 and 2018

Note 5: Fair Value Measurement (Continued)

The tables below represent the assets measured at fair value on a recurring basis by level within the hierarchy, as of June 30, 2019 and 2018:

June 30, 2019	Total	Level 1	Level 2	Level 3
Mutual funds, equities	\$ 3,629,208	\$ 3,629,208	\$ -0-	\$ -0-
U.S. Treasury obligations	2,221,400	-0-	2,221,400	-0-
Exchange traded funds	1,314,071	1,314,071	-0-	-0-
Corporate obligations	1,270,505	-0-	1,270,505	-0-
Municipal bonds	540,444	-0-	540,444	-0-
Money market funds	252,648	252,648	-0-	-0-
U.S. Government agency bonds	223,444	-0-	223,444	-0-
	<u>\$ 9,451,720</u>	<u>\$ 5,195,927</u>	<u>\$ 4,255,793</u>	<u>\$ -0-</u>
June 30, 2018	Total	Level 1	Level 2	Level 3
Mutual funds, equities	\$ 3,767,152	\$ 3,767,152	\$ -0-	\$ -0-
Exchange traded funds	1,578,772	1,578,772	-0-	-0-
Corporate obligations	1,253,509	-0-	1,253,509	-0-
U.S. Treasury obligations	1,223,853	-0-	1,223,853	-0-
Municipal bonds	541,115	-0-	541,115	-0-
Money market funds	279,892	279,892	-0-	-0-
U.S. Government agency bonds	215,767	-0-	215,767	-0-
	<u>\$ 8,860,060</u>	<u>\$ 5,625,816</u>	<u>\$ 3,234,244</u>	<u>\$ -0-</u>

Note 6: Property and Equipment

Property and equipment consisted of the following:

	2019	2018
Land	\$ 618,900	\$ 618,900
Building and improvements	2,594,830	1,424,782
Furniture and equipment	108,392	107,131
Construction in progress	-0-	117,915
Leasehold improvements	-0-	40,167
	<u>3,322,122</u>	<u>2,308,895</u>
Less accumulated depreciation	<u>(129,483)</u>	<u>(113,182)</u>
	<u>\$ 3,192,639</u>	<u>\$ 2,195,713</u>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$47,950 and \$9,573, respectively.

CHESAPEAKE BAY TRUST
Notes to Financial Statements
June 30, 2019 and 2018

Note 7: Mortgage Payable

Mortgage payable consisted of the following as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Mortgage payable to Sandy Spring Bank	\$ 1,920,416	\$ 1,984,577
Less: Unamortized deferred financing costs	<u>9,698</u>	<u>10,403</u>
Note payable, net	1,910,718	1,974,174
Less: Current maturities	<u>66,203</u>	<u>62,988</u>
Mortgage payable, net of current maturities	<u><u>\$ 1,844,515</u></u>	<u><u>\$ 1,911,186</u></u>

On March 28, 2018, the Trust entered into a mortgage with Sandy Spring Bank in the amount of \$2,000,000 to purchase property. The mortgage is payable in monthly principal and interest payments of \$12,600. Interest is calculated at a fixed per annum rate of 4.39%. The mortgage is scheduled to mature on March 28, 2033. The mortgage is subject to prepayment penalties and fees at varying rates if the mortgage is paid in whole or in part prior to the maturity date. The mortgage is secured by a first lien on the property located in Annapolis, Maryland.

In addition, during 2018, the mortgage required the establishment of a construction escrow in which \$751,826 was deposited into this account to be used towards specific improvements to the property, as approved by Sandy Spring Bank. During 2019, the Trust used these funds towards specific improvements as approved by the bank. The balance of the construction escrow as of June 30, 2019 and 2018 was \$0- and \$751,870, respectively, which included interest earned.

The aggregate annual maturities of the mortgage payable and the amortization of unamortized deferred financing costs for each of the years subsequent to June 30, 2019, are as follows:

Year ending June 30,	Mortgage Payable	Deferred Financing Costs	Total
2020	\$ 66,908	\$ (705)	\$ 66,203
2021	70,179	(705)	69,474
2022	73,367	(705)	72,662
2023	76,700	(705)	75,995
2024	79,990	(705)	79,285
Thereafter	<u>1,553,272</u>	<u>(6,173)</u>	<u>1,547,099</u>
	<u><u>\$ 1,920,416</u></u>	<u><u>\$ (9,698)</u></u>	<u><u>\$ 1,910,718</u></u>

Interest expense for the years ended June 30, 2019 and 2018 was \$87,040 and \$22,377, respectively, which does not include the amortization of deferred financing costs of \$705 and \$176, respectively.

CHESAPEAKE BAY TRUST
Notes to Financial Statements
June 30, 2019 and 2018

Note 8: Compensated Absences

Employees accumulate leave based on years of service. Upon termination, employees are paid for annual leave, holiday and compensatory leave. Employees may be entitled to be paid for annual leave up to a maximum of 280 hours plus any annual leave earned and unused in the year up to the date of separation. Employees may also be entitled to be paid for compensatory leave up to a maximum of 16 hours. Any remaining hours over the stipulated maximum will be forfeited. As of June 30, 2019 and 2018, accrued compensated absences were \$119,983 and \$101,140, respectively, and are included in salaries and benefits payable on the statements of financial position. See Note 14 for the Inter-Agency Agreement.

Note 9: Net Assets Without Donor Restrictions

Board Designated Reserve: The Trust's Board has established a designated reserve of \$5,000,000 to help perpetuate the existence of the Trust and protect against future conditions which may alter its ability to support Chesapeake Bay restoration, community stewardship and educational projects. This reserve is a result of an internal designation and not restrictions placed by donors. Accordingly, income earned on investments related to the designated reserve is not designated and is used by the Trust to fund annual operating expenses.

During the year ended June 30, 2019, the Board amended their gift acceptance policy to add any future unrestricted bequests received by the Trust into the board designated reserve.

Net assets under the board designated reserve consisted of the following as of June 30, 2019 and 2018:

	2019	2018
Operating reserve, general	\$ 5,000,000	\$ 5,000,000
Operating reserve, bequests	25,000	-0-
	\$ 5,025,000	\$ 5,000,000

Approved Contracts and Awarded Grants: The Board of Trustees and management have also designated net assets for approved contracts and awarded grants. At June 30, 2019 and 2018, amounts designated were \$1,853,683 and \$2,249,333, respectively.

CHESAPEAKE BAY TRUST
Notes to Financial Statements
June 30, 2019 and 2018

Note 10: Net Assets With Donor Restrictions

The Trust has several restricted funds, some which may be expended but only for the purpose specified by the respective donors. Net assets with donor restrictions were available for the following purposes as of June 30, 2019:

	2018	Current Year Activity		2019
		Contributions	Released From Restrictions	
Subject to expenditure for a specified purpose:				
Community stewardship program	\$ 420,750	\$ 278,550	\$ (560,777)	\$ 138,523
Environmental education	-0-	150,000	(15,000)	135,000
	<u>420,750</u>	<u>428,550</u>	<u>(575,777)</u>	<u>273,523</u>
Subject to spending policy or appropriation:				
Endowment fund	-0-	1,000	-0-	1,000
	<u>\$ 420,750</u>	<u>\$ 429,550</u>	<u>\$ (575,777)</u>	<u>\$ 274,523</u>

Net assets with donor restrictions were available for the following purposes as of June 30, 2018:

	2017	Prior Year Activity		2018
		Contributions	Released From Restrictions	
Subject to expenditure for a specified purpose:				
Community stewardship program	\$ 405,400	\$ 412,970	\$ (397,620)	\$ 420,750
Environmental education	2,500	5,000	(7,500)	-0-
Other programs	25,000	-0-	(25,000)	-0-
	<u>\$ 432,900</u>	<u>\$ 417,970</u>	<u>\$ (430,120)</u>	<u>\$ 420,750</u>

The Trust's net assets with donor restrictions subject to spending policy or appropriation is comprised of an endowment fund, of which the original principal of the fund may not be expended. The income earned on the endowment fund, including appreciation, is expendable but only for the purpose established by the respective donors. If no purpose is stipulated by the donor, the income earned is considered available for use as determined by the Trust.

FASB issued guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The State of Maryland has enacted UPMIFA. This guidance also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The board of trustees of the Trust has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Trust classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Note 10: Net Assets With Donor Restrictions (Continued)

The remaining portion of the donor-restricted endowment fund that is not classified as net assets with donor restrictions, that are perpetual in nature, is classified as net assets with donor restrictions that are temporary in nature until those amounts are appropriated for expenditure by the Trust in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Trust considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, and (6) other resources of the Trust.

Investment Return Objectives, Risk Parameters and Strategies

The Trust has adopted investment and spending policies, approved by the board of trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment fund while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of not more than 5%, while growing the funds if possible. Therefore, the Society expects its endowment assets, over time, to produce an average annual rate of return that is higher than the inflation rate in order to maintain the purchasing power of the endowment fund. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund. Investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

The Trust has a policy of appropriating for distribution each year not more than 5% of a rolling three-year average of the endowment fund's fair value. In establishing this policy, the Trust considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Trust expects the current spending policy to allow its endowment fund to grow. This is consistent with the Trust's objective is to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Note 11: Maryland State Income Tax Check-Off and Chesapeake Bay License Plate Contributions

Maryland taxpayers can elect to make charitable contributions with the filing of their State income returns. Such contributions are distributed equally between the Trust and the Wildlife and Heritage Division of Maryland Department of Natural Resources. Contributions allocated to the Trust under this program amounted to \$400,851 and \$456,163 for the years ended June 30, 2019 and 2018, respectively. This program continues through the upcoming fiscal year.

Residents of the State may also purchase the Chesapeake Bay commemorative license plates for their vehicle for a total amount of \$20, of which \$10 goes directly to the Trust. Contributions allocated to the Trust under this program amounted to \$504,785 and \$429,871 for the years ended June 30, 2019 and 2018, respectively. The Trust also receives the renewal fees collected by the Maryland Vehicle Administration when the Chesapeake Bay commemorative license plates are renewed. The Trust received \$3,024,440 and \$3,077,900 in plate renewal fees during the years ended June 30, 2019 and 2018, respectively.

CHESAPEAKE BAY TRUST
Notes to Financial Statements
June 30, 2019 and 2018

Note 12: Rental Income

The Trust assumed lease agreements with two tenants at the time it purchased the building. Both leases were terminated effected August 31, 2019. The future minimum annual lease payments to be received for the year ending June 30, 2020 are \$11,120. Rental income for all leases was \$67,812 and \$18,596 for the years ended June 30, 2019 and 2018, respectively.

Note 13: Commitments

Property Lease: Prior to the acquisition of its own building, the Trust leased office and parking space under a cancelable lease which expired on December 31, 2018. The Trust also incurred \$140 per month per employee for parking under this lease. Total rent expense under this lease for the years ended June 30, 2019 and 2018 was \$60,110 and \$114,503, respectively.

Note 14: Inter-Agency Agreement

The Trust entered into an Inter-Agency Agreement with the Maryland Environmental Services (MES) whereby MES hires employees, who are assigned to the Trust, to provide administrative and management services. Under this agreement, the Trust has agreed to fully reimburse MES for all salaries, benefits and other employee related costs associated with providing these employees. This agreement can be terminated by either party at any time upon a thirty-day written notice.

Note 15: Retirement Plan

As part of the Inter-Agency Agreement, the employees assigned to the Trust participate in the MES 401(k) retirement plan (the Plan). Under the terms of the Plan, employees are eligible to participate in the Plan upon hire if they are a full-time or part-time employee working at least 1,000 hours per year, as defined in the MES employee handbook. Participating employees may elect to contribute pre-tax dollars into the plan not to exceed the maximum contribution allowable under applicable provisions of the IRC. Employees are automatically enrolled in the plan with a minimum 3% employee deferral that increases 1% annually until a maximum of 6% is reached. Employees can change or opt out of the automatic increase at any time. The Trust makes matching employer contributions to the Plan for participating employees equal to a minimum of 3% of gross payroll earnings with a maximum up to 6% depending on each employee's deferral percentage. Total retirement expense for the years ended June 30, 2019 and 2018 was \$60,269 and \$58,413, respectively.

Note 16: Contract and Grant Commitments

At June 30, 2019 and 2018, the Trust has conditionally awarded contracts and grants to organizations in the amounts of \$12,911,099 and \$12,339,209, respectively. These organizations must meet certain criteria to receive the awarded grant and/or contract funding.

CHESAPEAKE BAY TRUST
Notes to Financial Statements
June 30, 2019 and 2018

Note 17: Related Party Transactions

The Trust awarded several grants or contracts during the years ended June 30, 2019 and 2018 to organizations related to the Trust, primarily through common board membership. A trustee who has an actual or potential conflict of interest with respect to a proposed action or transaction of the Trust is not present during deliberations and does not participate in the decision making of the Trust with respect to such action or transaction. The disinterested members of the Board of Trustees may approve the proposed action or transaction upon concluding that it is in the best interest of the Trust.

Note 18: Certain Significant Risks and Uncertainties

The Trust maintains its cash balances at various financial institutions. Periodically during the year, the Trust's cash balances may exceed federally insured limits. The Trust has not experienced any losses in such accounts and believes it is not exposed to significant risk on cash balances.

CHESAPEAKE BAY TRUST
SUPPLEMENTARY INFORMATION
JUNE 30, 2019 AND 2018

CHESAPEAKE BAY TRUST
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number/ Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures (Allowable)
U.S. Department of Commerce				
National Oceanic & Atmospheric Administration (NOAA) Chesapeake Bay Studies	11.457	NA17NMF4570275	\$ 148,954	\$ 153,954
U.S. Department of the Interior				
U.S. Fish and Wildlife Service Coastal Program	15.630	F17AC01202		20,407
National Park Service Conservation Activities by Youth Service Organizations	15.931	P15AC00032: P17AC00504 P18AC01187		<u>53,783</u>
Total U.S. Department of the Interior				<u>74,190</u>
U.S. Environmental Protection Agency				
Chesapeake Bay Program Passed through National Fish and Wildlife Foundation	66.466	CB-96341401		594,846
Chesapeake Bay Program	66.466	0600.11.030409 0602.17.058513 0603.18.063218	349,398	454,367
Passed through Maryland Department of Natural Resources Chesapeake Bay Program	66.466	*	<u>1,232,128</u>	<u>1,237,273</u>
Total U.S. Environmental Protection Agency				<u>2,286,486</u>
Total Expenditures of Federal Awards			<u>\$ 1,730,480</u>	<u>\$ 2,514,630</u>

* Pass-through entity - Maryland Department of Natural Resources. Grant numbers:

- 14-17-2186-CBG-6601
- 14-18-2295-CBG-6601
- 14-19-2491-CBG-8501
- 14-16-2072-CBG-6601
- 14-17-2188-CBG-6601
- 14-18-2369-CBG-6601
- 14-18-2298-CBG-6601
- 14-19-2553-CBG-8501

CHESEAPEAKE BAY TRUST
Notes to Schedule of Expenditures of Federal Awards
June 30, 2019

Note A: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant award activity of Chesapeake Bay Trust under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Chesapeake Bay Trust, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Chesapeake Bay Trust.

Note B: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note C: Indirect Cost Rate

Chesapeake Bay Trust has elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees
Chesapeake Bay Trust

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Chesapeake Bay Trust, (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report dated October 31, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Chesapeake Bay Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Chesapeake Bay Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of Chesapeake Bay Trust's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards (Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Chesapeake Bay Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gross, Mendelsohn & Associates, P.A.

Baltimore, Maryland
October 31, 2019

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by The Uniform Guidance

To the Board of Trustees
Chesapeake Bay Trust

Report on Compliance for Each Major Federal Program

We have audited Chesapeake Bay Trust's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Chesapeake Bay Trust's major federal programs for the year ended June 30, 2019. Chesapeake Bay Trust's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Chesapeake Bay Trust's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Chesapeake Bay Trust's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Chesapeake Bay Trust's compliance.

Opinion on Each Major Federal Program

In our opinion, Chesapeake Bay Trust complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by The Uniform Guidance (Continued)

Report on Internal Control Over Compliance

Management of Chesapeake Bay Trust is responsible for establishing and maintaining effective internal control over the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Chesapeake Bay Trust's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Chesapeake Bay Trust's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Gross, Mendelsohn & Associates, P.A.

Baltimore, Maryland
October 31, 2019

CHESAPEAKE BAY TRUST
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Chesapeake Bay Trust were prepared in accordance with GAAP.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Chesapeake Bay Trust which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies or material weaknesses related to internal control over major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for Chesapeake Bay Trust expresses an unmodified opinion of all major federal award programs.
6. There are no audit findings that are required to be reported in accordance with 2 CFR section 200.516(a).
7. The program tested as a major program was the U.S. Environmental Protection Agency Chesapeake Bay Program (CFDA #66.466).
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. Chesapeake Bay Trust qualified as a low-risk auditee as defined by the Uniform Guidance.

CHESAPEAKE BAY TRUST
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Findings - Financial Statement Audit

None.

Findings and Questioned Costs - Major Federal Award Program Audit

None.

Summary Schedule of Prior Audit Findings

None.

